

REALTY CAPITAL CORP. LIMITED ANNUAL REPORT 1978

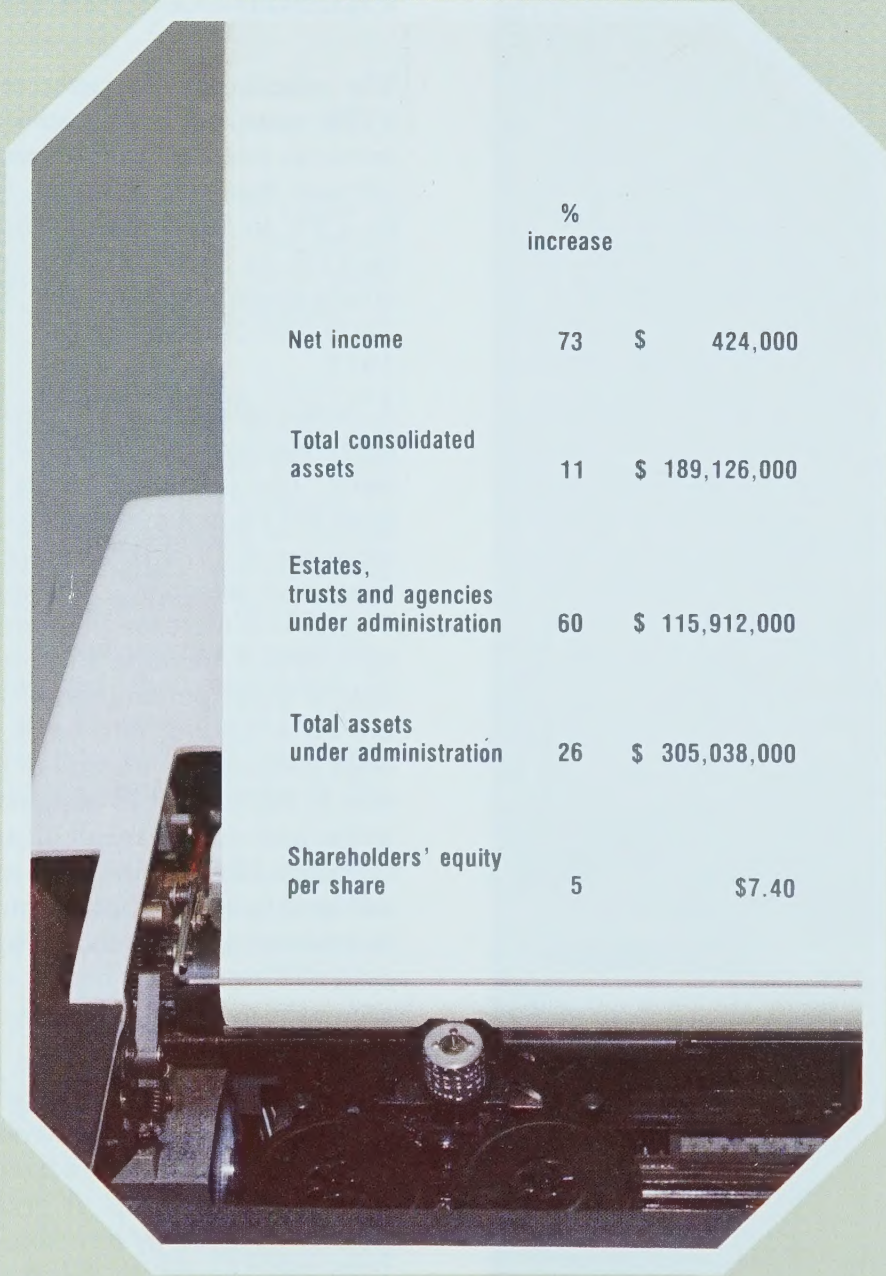
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Realty Capital Corp. Limited is a holding company whose principal subsidiary is Federal Trust Company. Federal Trust Company has eleven financial service branches in Ontario of which eight are in Metropolitan Toronto. These branches provide a full range of deposit, investment, lending and trust services. The company prides itself on providing high quality personal service.

NINETEEN SEVENTY EIGHT AT A GLANCE



	% increase	
Net income	73	\$ 424,000
Total consolidated assets	11	\$ 189,126,000
Estates, trusts and agencies under administration	60	\$ 115,912,000
Total assets under administration	26	\$ 305,038,000
Shareholders' equity per share	5	\$7.40

***“We are building an effective,
co-ordinated, versatile,
Financial Organization.”***



PRESIDENT'S REPORT

The results for the year ended December 31, 1978 were an improvement over those of the previous year, although earnings have not reached near their full potential. Net income increased by 73% to \$424,000, company assets increased by 11% to \$189,126,000 and total assets under administration passed the \$300 million mark at \$305,038,000 which was a 26% increase over 1977.

A factor affecting 1978 profits, especially in the latter part of the year, was the increase in bank rates. The chartered banks prime rate increased from 8¹/₄% at the beginning of March to 12% at the beginning of 1979. The cost of the company's savings deposits increased by a similar percentage from 6% to 9¹/₂%. This increase in interest cost was not offset by a similar increase in investment income since only a small percentage of the company's assets are on a floating rate basis. These rate increases were primarily as a result of government intervention in the market to support the falling Canadian dollar and not the result of supply and demand influences. When this pressure eases, as I believe it will later in 1979, there should be a similar decline in interest rates which will have a beneficial effect on 1979 earnings.

Many steps were taken in 1978 which should result in a further increase in earnings in 1979. Provisions against mortgage losses should decline further. All properties owned by the real estate venture in Quebec have been sold, closed and the company wound up. A good portion of the properties acquired by foreclosure have been sold in 1978. I feel confident that the remaining properties will be sold in excess of book value.

Also in 1978 three parcels of land were sold at a profit. The real estate subsidiary, Warchester Investments Limited, now owns only two parcels of

real estate consistent with the policy of divesting of all non-trust company assets.

Besides the profits recorded on these sales the mortgages taken back provide the company with a regular income stream.

During 1978, the company continued its policy of cautious mortgage underwriting, and this policy has resulted in a strengthening of the overall portfolio and a continued reduction in the number of arrears.

Our policy of writing open mortgages which we established in 1977 was continued during the year, and this feature has been copied by many other lending institutions. We shall continue to seek new and better ways to provide mortgage financing for the Canadian market. We anticipate an active and profitable year in this area in 1979.

With respect to our in-house mortgage portfolio, we have concentrated on the origination of residential mortgages and at December 31, 1978, 86% of the portfolio consisted of residential mortgages with 94% of the portfolio being in Ontario.

A further development in 1978 was the expansion of the Mortgage Banking Division. An Assistant Vice-President was appointed to head the department and to recognize the importance of this area in the company's future growth. Besides providing mortgage product to our in-house funds, Fedco Mortgage Investment Company and the Federal Trust Mortgage and Bond Fund, both of which continue to grow impressively, the department will be placing an increasing amount of mortgages with other investor clients, primarily pension funds. There is a substantial demand for mortgages by investors because of the attractive yields offered in relation to other investment alternatives. This operation will provide a continuing increase in income from the administration of these funds.

In this vein a further fund was added at the end of 1978 to the existing Mortgage and Bond Fund, namely the Federal Trust Dividend Income Fund. This fund is designed to provide our clients with an equity investment alternative. The funds will be invested primarily in Canadian high quality preferred shares similar to those invested in by the Company, which as a result of the changes to the dividend tax credit at the beginning of 1978 provide extremely attractive after tax returns to an individual investor.

In 1978 the final conversion of all the major services of the company to on-line were completed. The computer system is running smoothly and efficiently and is a factor in the company being able to control its operating costs. In 1978 salaries only increased by 1% to \$1,873,000, premises costs declined by 8% to \$638,000 and other operating costs declined by 8% to \$1,229,000.

The company continued to strengthen its internal administration by streamlining its systems and procedures and reporting systems. In addition internal audits are now carried out on all departments of the company.

Economic Outlook

As anticipated in my last report, rates did rise substantially in the latter part of 1978. The same problems which plagued the country last year are still with us. However, one can see the beginnings of a brighter future as Governments remove some of the pressure they imposed upon business growth, and as the economy, which has slowed down considerably, starts to pick up again. I anticipate that interest rates will peak and start to come down towards the end of the 2nd quarter of 1979 and will return to more normal levels by the end of the year. However, unless inflation is brought under control, an upward pressure on rates will develop again in 1980.

Company Outlook

Earnings for 1979 should continue their increase. The amount of the increase is dependent on the timing of many factors including the anticipated reduction in rates and the sales of properties owned. However, besides some of these factors, earnings should be enhanced by the expansion of the Mortgage Banking Division, an anticipated increase of approximately 22% in company assets and deposits, continued control over operating costs as a result of computerization and cost control techniques.

No new financial service branches will be opened in 1979 since the existing branch net work is sufficient to support the existing capital base of the company. No new capital should be required until 1980 and further branches will be considered at that time.

Competition from other institutions, especially the chartered banks, will remain keen in all areas in 1979, but I am confident that we are prepared and able to meet this challenge.

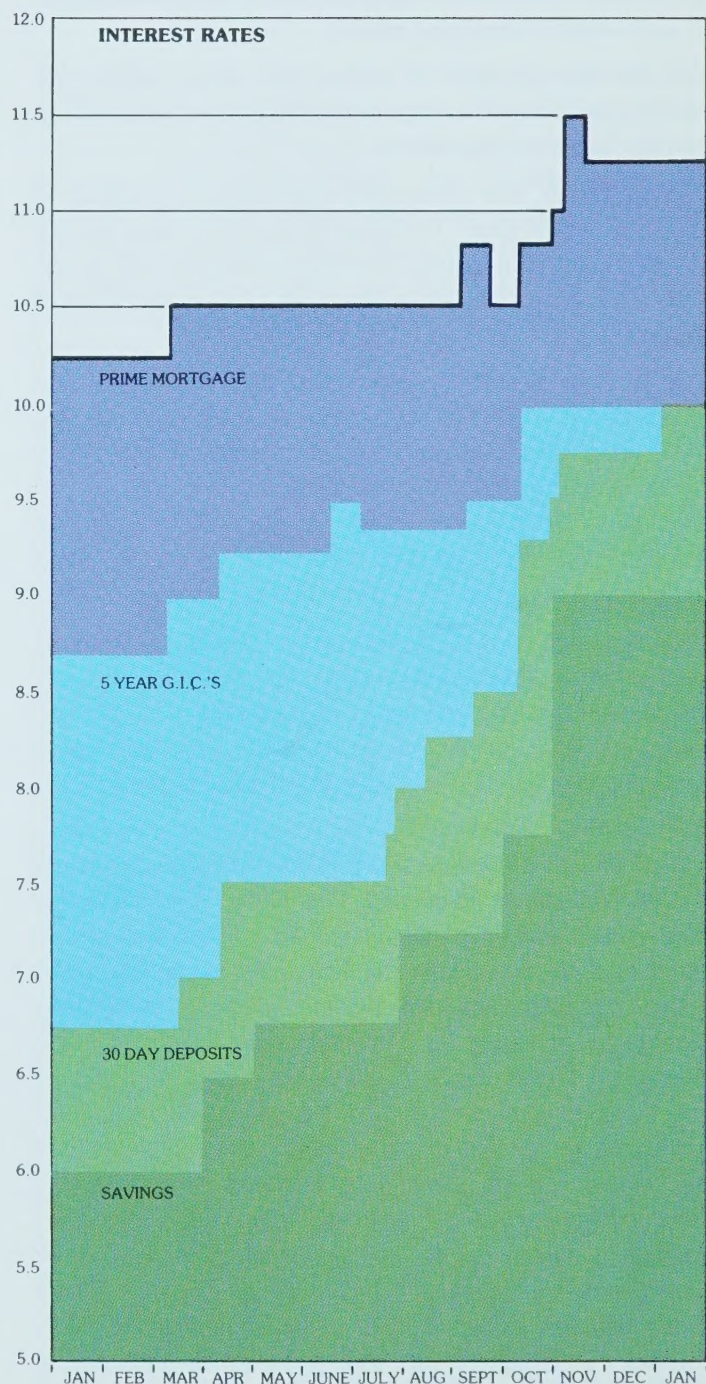
In Appreciation

On behalf of the Board of Directors I express warm thanks to all our people for their conscientious efforts in 1978. These men and women are the foundation for the Company's future.

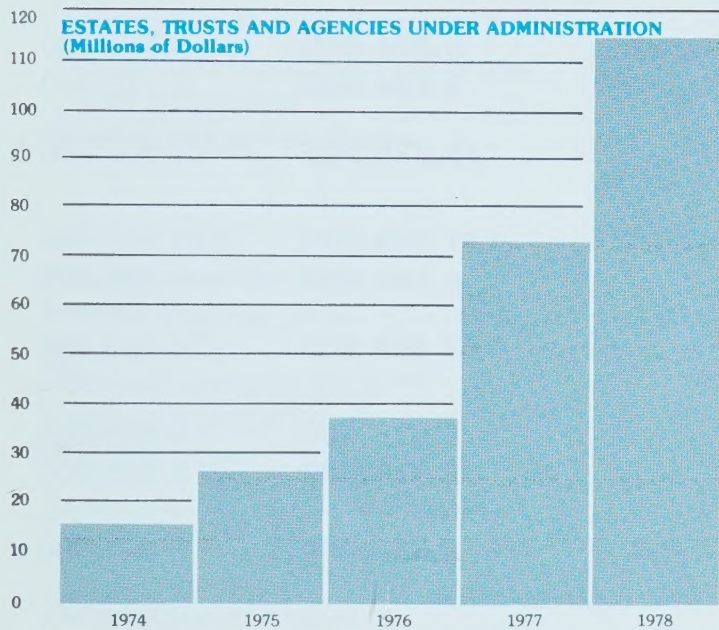
My thanks are also extended to all shareholders for their support and I hope they will continue to make use of our broad range of financial services.



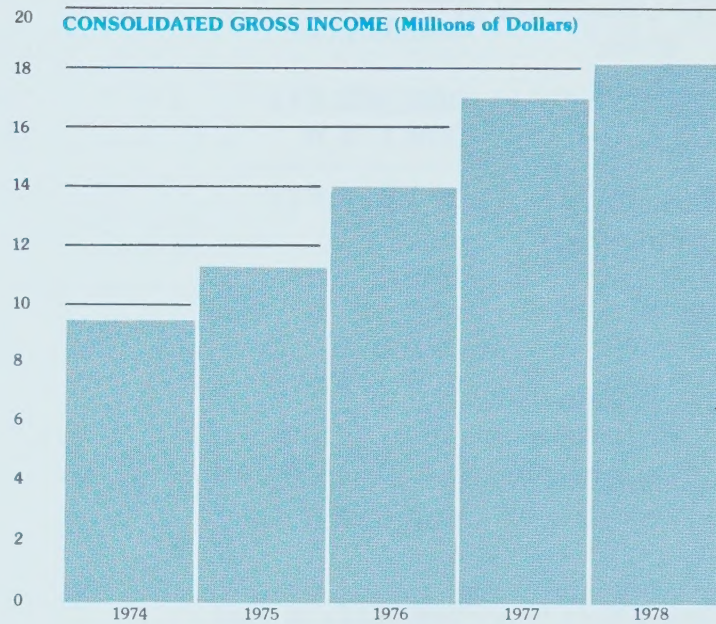
David S. Ades
President and Chief Executive Officer
January 30, 1979



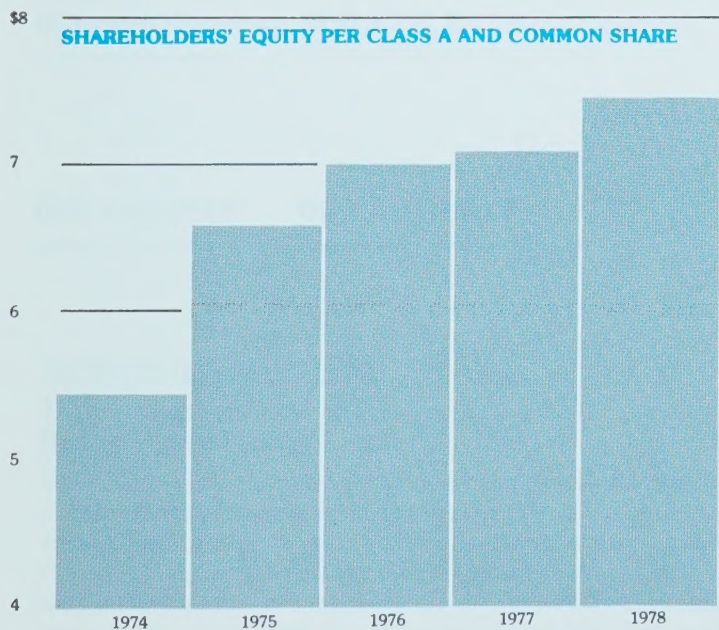
Interest on savings and short term deposits increased significantly during the latter part of the year as a result of the increase in the chartered banks prime rate.



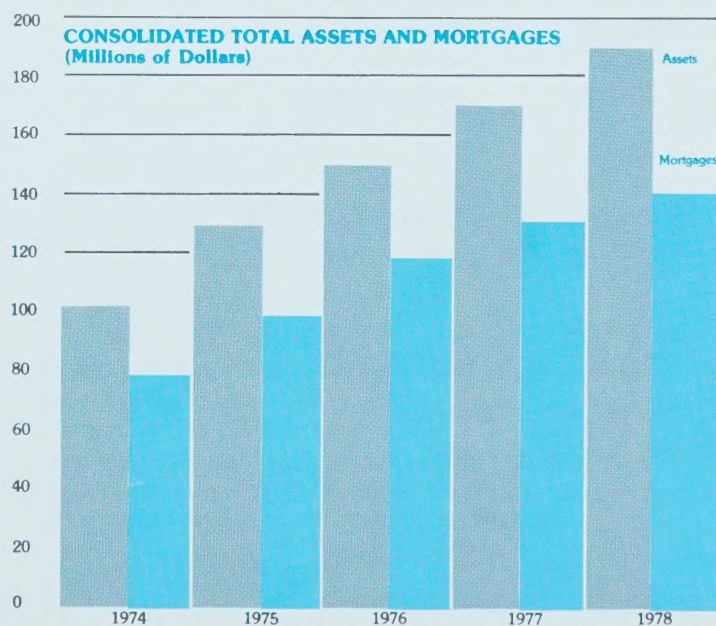
The rapid growth of assets under administration is primarily a result of the increase in the number of mortgages administered for pension funds and other investor clients.



The gross income of the Company has increased by 197% in the past 5 years. 1978 - \$18M



The underlying book value of the Company at December 31, 1978 was \$7.40 per share.



Although mortgages still represent 75% of Total Assets the % is gradually declining as the Company expands its other forms of investing and lending

**CONSOLIDATED BALANCE SHEET****ASSETS**

December 31

1978**1977**

Cash and short term investments	\$ 10,359,000	\$ 10,218,000
Investment income due and accrued	2,517,000	2,382,000
Securities (Note 2):		
Bonds	5,366,000	5,366,000
Stocks	9,924,000	6,796,000
	15,290,000	12,162,000
Loans:		
Mortgages	141,330,000	129,941,000
Demand and personal	6,166,000	4,583,000
	147,496,000	134,524,000
Real estate (Note 3):		
Rental properties held for sale	6,075,000	3,573,000
Land held for development or sale	2,311,000	3,034,000
	8,386,000	6,607,000
Investment in and advances to joint ventures (Note 4)	1,018,000	989,000
Other (Note 5)	2,535,000	1,171,000
Premises, leasehold improvements and equipment (Note 6)	1,525,000	1,616,000
	\$189,126,000	\$169,669,000

APPROVED BY THE BOARD:David S. Ades, *Director*Roger I. Coe, *Director*

LIABILITIES

	December 31 <u>1978</u>	<u>1977</u>
Guaranteed trust deposits (Note 7):		
Demand	\$ 39,130,000	\$38,869,000
Term	12,331,000	9,541,000
Guaranteed investment certificates and debentures	115,286,000	102,225,000
Interest due and accrued	8,271,000	6,768,000
	175,018,000	157,403,000
Accounts payable and other	1,410,000	1,207,000
Income taxes payable	94,000	384,000
Bank loan	980,000	890,000
Mortgages payable (Note 8)	841,000	963,000
Long term debt (Note 9)	3,005,000	3,170,000
Minority interest (Note 10)	2,000,000	—
	8,330,000	6,614,000
Deferred income taxes	323,000	474,000
SHAREHOLDERS' EQUITY		
Capital stock (Note 11)	2,524,000	2,524,000
Retained earnings	2,931,000	2,654,000
	5,455,000	5,178,000
	\$189,126,000	\$169,669,000

AUDITORS' REPORT

To the Shareholders of Realty Capital Corp. Limited:

We have examined the consolidated balance sheet of Realty Capital Corp. Limited as at December 31, 1978 and the consolidated statements of income, retained earnings and changes in cash position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1978 and the results of its operations and the changes in its cash position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PRICE WATERHOUSE & CO.
Chartered Accountants

Toronto
February 19th, 1979.



CONSOLIDATED STATEMENT OF INCOME

	Year ended December 31	
	1978	1977
Income:		
Securities, including short term investments	\$ 2,040,000	\$ 1,571,000
Mortgages	13,869,000	13,367,000
Demand and personal loans	692,000	648,000
Profit (loss) on real estate	284,000	(113,000)
Real estate sales commissions	45,000	395,000
Fees, commissions and other	1,243,000	1,094,000
	<u>18,173,000</u>	<u>16,962,000</u>
Expenses:		
Interest on —		
Guaranteed trust deposits	13,446,000	12,210,000
Bank loan	112,000	61,000
Long term debt	182,000	154,000
	<u>13,740,000</u>	<u>12,425,000</u>
Salaries and staff benefits	1,873,000	1,846,000
Real estate sales commissions	25,000	219,000
Premises	638,000	695,000
Other operating	1,229,000	1,338,000
	<u>17,505,000</u>	<u>16,523,000</u>
Operating income before taxes	668,000	439,000
Income taxes (Note 12)	30,000	3,000
Net operating income	<u>638,000</u>	<u>436,000</u>
Net loss on investments (including provision for possible losses) after related income taxes of \$103,000 (1977 - \$159,000)	<u>106,000</u>	<u>191,000</u>
Net income before minority interest	532,000	245,000
Minority interest (Note 10)	108,000	—
Net income for the year	<u>\$ 424,000</u>	<u>\$ 245,000</u>
Earnings per Class A and Common share (Note 13):		
Net operating income	\$ 0.87	\$ 0.59
Net income for the year	\$ 0.58	\$ 0.33
Fully diluted	\$ 0.54	



CONSOLIDATED STATEMENT OF RETAINED EARNINGS

	Year ended December 31	
	<u>1978</u>	<u>1977</u>
Balance at beginning of year	\$2,654,000	\$2,556,000
Net income for the year	424,000	245,000
	3,078,000	2,801,000
Dividends:		
Class A shares (20 cents per share)	112,000	112,000
Common shares (20 cents per share)	35,000	35,000
	147,000	147,000
Balance at end of year	<u>\$2,931,000</u>	<u>\$2,654,000</u>



CONSOLIDATED STATEMENT OF CHANGES IN CASH POSITION

	Year ended December 31	
	<u>1978</u>	<u>1977</u>
SOURCES OF CASH		
Operations*	\$ 672,000	\$ 151,000
Proceeds on real estate, net of profit (loss)		
included in operations	2,513,000	2,078,000
Increase in guaranteed trust borrowings	16,112,000	17,998,000
Increase in bank loan	90,000	718,000
Issue of preference shares by subsidiary company (Note 10)	2,000,000	—
	21,387,000	20,945,000
APPLICATIONS OF CASH		
Increase in securities	3,128,000	2,852,000
Increase in loans	12,972,000	12,066,000
Additions to real estate:		
Rental properties held for sale	1,205,000	3,017,000
Land held for development or sale	179,000	251,000
Additions to premises, leasehold improvements and equipment	118,000	406,000
Payments on long term debt	165,000	165,000
Dividends	147,000	147,000
Net other	3,332,000	(1,480,000)
	21,246,000	17,424,000
Increase in cash for the year	141,000	3,521,000
Cash and short term investments at beginning of year	10,218,000	6,697,000
Cash and short term investments at end of year	<u>\$10,359,000</u>	<u>\$10,218,000</u>

* Represents net income for the year after adjustments for depreciation, amortization of financing expenses, provision for possible losses on investments, and deferred income taxes (1978 - \$248,000; 1977 - \$94,000).



1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of consolidation

The consolidated financial statements include the accounts of Realty Capital Corp. Limited and all of its 99.6% owned subsidiary companies as listed below:

Federal Trust Company
Warchester Investments Limited
Sutton-Davis Estates North Inc.
Du Barry Development Inc.

Acquisitions are accounted for using the purchase method of accounting. The minority interest in common shares, which is not material, has been included with accounts payable on the balance sheet and operating expenses in the statement of income.

(b) Securities

Stocks are carried at original cost and bonds at amortized cost. Where concurrent purchase and sale contracts of equal value are made for bonds of a similar investment quality, no gain or loss is recognized on the date of sale. The difference between the book value and the market value of the bonds sold is amortized over the lesser of the term to maturity of the bonds sold and purchased.

(c) Mortgages

Mortgages are stated at their outstanding amount less unamortized discount and placement fees. Any amounts paid to maintain the Company's interest in the underlying security are included in the mortgage principal. Discount and placement fees are amortized on a straight-line basis over the terms of the mortgages. Provision for possible losses is made as required.

Mortgages taken back on the sale of land held for development or sale are discounted to yield current market rates and the discounts are amortized over the terms of the mortgages.

(d) Demand and personal loans

Provision for losses on loans is made as required. Interest income on personal loans is amortized over the terms of the loans using the sum of the digits method. On demand loans, interest is recorded on an accrual basis.

(e) Real estate

Real estate is valued at the lower of cost and estimated net realizable value, at the expected time of sale. Cost includes direct development and construction costs and direct carrying charges, such as mortgage interest, property taxes, professional fees and other related costs. Also included are general and administrative expenses and interest on general borrowings considered applicable.

For rental properties held for sale, cost also includes net rental losses or gains until time of sale.

Where properties are acquired by foreclosure, cost includes the mortgage receivable balance, accrued interest thereon and amounts paid to maintain the Company's position therein to the date title is acquired.

(f) Joint ventures

These investments are recorded using the equity accounting basis.

(g) Deferred expenses

Certain expenses, included in other assets, are deferred to provide proper matching of revenue and expenses. The significant items are:

- (i) Financing costs, including commissions, are written off over the terms of the related debt.
- (ii) Certain computer systems costs are written off over a period of 5 years from the implementation date of such systems.

(h) Premises, leasehold improvements and equipment

Premises, leasehold improvements and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is provided to write off assets over their estimated useful lives as follows:

Buildings	2 1/2 % straight-line
Leasehold improvements	over the remaining term of the lease plus first option period
Equipment	20% reducing balance
Computer equipment	over 7 years straight-line

(i) Income taxes

Full provision for income taxes is made in the financial statements using the tax allocation method, whereby income taxes related to timing differences are included in deferred income taxes. Timing differences arise as a result of including certain items of income and expense in one reporting period for financial accounting purposes and another for income tax purposes.

2. SECURITIES

Cost and market values, at December 31, are:

	1978		1977	
	Cost	Market	Cost	Market
Bonds —				
Government of				
Canada	\$ 1,066,000	\$ 954,000	\$ 1,057,000	\$ 970,000
Provinces of				
Canada	3,117,000	2,538,000	3,111,000	2,702,000
Municipalities	35,000	30,000	35,000	31,000
Corporations	1,148,000	980,000	1,163,000	1,011,000
	<u>5,366,000</u>	<u>4,502,000</u>	<u>5,366,000</u>	<u>4,714,000</u>
Stocks —				
Preferred	9,650,000	9,428,000	6,460,000	6,509,000
Common	274,000	279,000	336,000	281,000
	<u>9,924,000</u>	<u>9,907,000</u>	<u>6,796,000</u>	<u>6,790,000</u>
	<u>\$15,290,000</u>	<u>\$14,209,000</u>	<u>\$12,162,000</u>	<u>\$11,504,000</u>

3. REAL ESTATE

During 1978, carrying costs in the amount of \$428,000 were capitalized to rental properties held for sale (1977 - \$310,000) and carrying costs in the amount of \$179,000 were capitalized to land held for development or sale (1977 - \$251,000).

4. INVESTMENT IN AND ADVANCES TO JOINT VENTURES

At December 31, 1978, the investment in and advances to joint ventures is represented by the following:

10% undivided interest in 415 Yonge Street —		
Land	\$ 237,000	
Building, net of accumulated depreciation	690,000	
Other net assets	2,000	
9 1/4% mortgage payable up to August 1, 2001	(626,000)	
		\$ 303,000
Other investments in and advances to corporate joint ventures —		
Real estate		
Rental properties	103,000	
Land held for development or sale	178,000	
	<u>281,000</u>	
Mortgages receivable	241,000	
Advances	266,000	
Other net liabilities	(14,000)	
Mortgage payable	(59,000)	
		<u>715,000</u>
		<u>\$1,018,000</u>

5. OTHER ASSETS

Included in other assets, at December 31, are the following items:

	1978	1977
Investment in Fedco Mortgage Investment Company	\$ 304,000	\$ 304,000
Investment in Federal Trust Company		
Dividend Income Fund	100,000	—
Deferred expenses	381,000	460,000
Net realizable value of rental properties sold, to close on March 1, 1979	1,500,000	—
Other	250,000	407,000
	<u>\$2,535,000</u>	<u>\$1,171,000</u>

6. PREMISES, LEASEHOLD IMPROVEMENTS AND EQUIPMENT

Book values, at December 31, are:

	1978		1977	
	Cost	Accumulated depreciation and amortization	Net	Net
Land	\$ 188,000	\$ —	\$ 188,000	\$ 243,000
Buildings	538,000	96,000	442,000	423,000
Leasehold improvements	813,000	359,000	454,000	504,000
Equipment	849,000	408,000	441,000	446,000
	<u>\$2,388,000</u>	<u>\$863,000</u>	<u>\$1,525,000</u>	<u>\$1,616,000</u>

Depreciation and amortization charged against operations amounted to \$158,000 in 1978 and \$151,000 in 1977. Mortgages payable totalling \$114,000 are secured against land and buildings.

7. GUARANTEED TRUST DEPOSITS

This represents the borrowings of Federal Trust Company. The consolidated balance sheet, at December 31, includes assets which, in compliance with the requirements of The Loan and Trust Corporations Act, are earmarked and set aside to guarantee repayments of the trust deposits as follows:

	1978	1977
Cash and short term investments	\$ 9,549,000	\$ 11,344,000
Securities	14,902,000	9,708,000
Loans	144,729,000	132,623,000
Rental properties held for sale	6,075,000	2,289,000
Other	4,064,000	2,302,000
	<u>\$179,319,000</u>	<u>\$158,266,000</u>

8. MORTGAGES PAYABLE

The mortgages payable are secured by specific charges on land held for development or sale and the Company's branch premises.

They bear interest at rates between 8% and 10 1/4% and call for principal repayments as follows:

1979	\$ 76,000
1980	765,000
	<u>\$841,000</u>

9. LONG TERM DEBT

Long term debt of \$3,005,000 (1977 - \$3,170,000) consists of 9 1/4% sinking fund debentures, Series A, due July 3, 1993.

The Trust Indenture securing the sinking fund debentures Series A contains, among other things, restrictions as to the issuing of additional debentures and of other secured debt and on paying dividends. The Company has covenanted to pay by way of a mandatory sinking fund, sums sufficient to retire \$165,000 principal amount of debt on or before July 3 in each of the years 1979 to 1993 inclusive.

10. MINORITY INTEREST

On February 22, 1978, the authorized capital stock of Federal Trust Company was increased by 100,000 floating rate, cumulative, retractable, redeemable preference shares of the par value of \$20 each. On March 10, 1978, 100,000 of such preference shares were issued for \$2,000,000 cash to a chartered bank.

The main provisions applicable to these preference shares are as follows:

- (a) Dividends are payable quarterly at a rate of 2% over 1/2 of the chartered banks' prime demand loan interest rate. If four such payments are not made, the preference shareholders are entitled to elect two members of the Board of Directors of Federal Trust.
- (b) Shares are retractable at par value, with 12,500 shares to be retracted on March 1 in each of the years 1981 to 1988, subject to the restrictions in The Loan and Trust Corporations Act (Ontario).
- (c) Shares are redeemable at \$21 per share before March 1, 1981 and at \$20 thereafter.
- (d) Unless all preference dividend and retraction requirements have been met, Federal Trust may not declare dividends on common shares or redeem common shares, without the prior approval of the preference shareholders.
- (e) Approval of Federal Trust's preference shareholders is required for additional capital borrowings or share issues other than common by Federal Trust.
- (f) All outstanding preference shares are immediately retractable, subject to the restrictions in The Loan and Trust Corporations Act (Ontario), in the following circumstances:
 - if a quarterly dividend payment is not made as required,
 - if 12,500 shares are not retracted as scheduled, and
 - if conditions noted in paragraph (d) and (e) are not met.

During 1978, preference dividends of \$108,000 were paid to the minority shareholders in accordance with the provisions relating to such preference shares.

11. CAPITAL STOCK

- (a) Details of authorized and issued capital at December 31, 1977 and 1978:

Authorized —	
2,000,000 cumulative (20 cents) non-voting participating Class A shares without par value	
360,000 common shares without par value	
Issued —	
562,514 Class A shares	\$2,190,000
174,400 common shares	334,000
	<u>\$2,524,000</u>

- (b) At December 31, 1978 share warrants were outstanding entitling the holders to acquire one Class A share for each warrant held as follows:

	Exercisable to	Exercise price	Class A Shares reserved for exercise
Series C	February 15, 1979*	\$5.00	155,000
Series F	July 3, 1983	7.75	175,000
			<u>330,000</u>

*All Series C share warrants expired on February 15, 1979 without being exercised

12. INCOME TAXES

The total provision for (recovery of) current and deferred income taxes reflected in the statement of income relates to the following:

	1978		
	Current	Deferred	Total
Operating income	\$ 82,000	\$ (52,000)	\$ 30,000
Loss on investments	(4,000)	(99,000)	(103,000)
	<u>\$ 78,000</u>	<u>\$ (151,000)</u>	<u>\$ (73,000)</u>
	1977		
	Current	Deferred	Total
Operating income	\$418,000	\$(415,000)	\$ 3,000
Loss on investments	(15,000)	(144,000)	(159,000)
	<u>\$403,000</u>	<u>\$(559,000)</u>	<u>\$ (156,000)</u>

The Company's income tax provisions are lower than the prevailing corporate tax rate because the statement of income includes certain non-taxable earnings.

13. EARNINGS PER SHARE

The earnings per share figures are calculated using the weighted monthly average number of shares outstanding during the respective years. Fully diluted earnings per share reflect the result as if the series F share warrants with dilutive effects outstanding at the end of the period had been exercised at the beginning of the period. For the purpose of these calculations earnings of \$68,000 have been imputed at an after-tax rate of 5%.

14. OTHER INFORMATION

(a) Mortgages

Outstanding commitments for future advances amounted to approximately \$9,500,000 at December 31, 1978.

(b) Leases

Under lease commitments expiring over the next ten years, the Company is committed to annual rental payments of \$399,000.

(c) Directors' and senior officers' information

The aggregate remuneration paid or payable by the Company and its subsidiaries to directors and senior officers (as defined by The Business Corporations Act, Ontario) amounted to \$310,000 in 1978 and \$300,000 in 1977.

FIVE YEAR SUMMARY

(in thousands of dollars except per share figures)

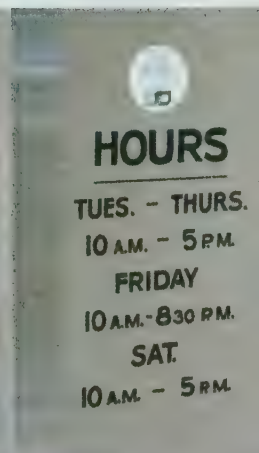
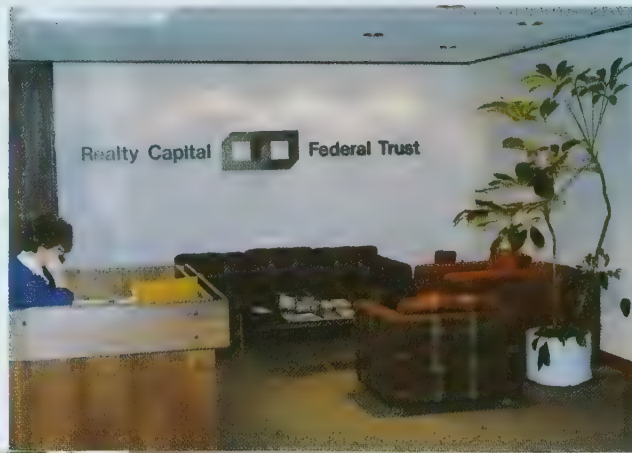
	1978	1977	1976	1975	1974
Gross income	\$18,173	\$16,962	\$14,203	\$11,809	\$9,528
Interest expense	13,740	12,425	10,304	8,463	6,514
	4,433	4,537	3,899	3,346	3,014
Operating expenses	3,765	4,098	3,481	3,073	2,370
Operating income before taxes	668	439	418	273	644
Income taxes	30	3	41	73	269
Net operating income	638	436	377	200	375
Investment gains (losses)	(106)	(191)	(28)	(2)	1
Minority interest	(108)	—	—	—	—
Extraordinary item	—	—	177	739	—
Net income	\$ 424	\$ 245	\$ 526	\$ 937	\$ 376
Return on average shareholders' equity	7.8%	4.7%	10.8%	20.8%	9.6%
Shareholder items (per Class A share)					
Net operating income	\$ 0.87	\$ 0.59	\$ 0.51	\$ 0.27	\$ 0.51
Net income	0.58	0.33	0.71	1.27	0.51
Dividends	0.20	0.20	0.20	0.20	0.30
Equity*	7.40	7.03	6.89	6.38	5.31
Market price					
High	4.00	4.20	3.40	3.80	4.75
Low	3.15	2.75	2.45	2.00	2.45
December 31	3.45	3.50	2.75	2.40	2.65
Price/earnings mutiple**	4.8	5.9	5.4	8.9	5.2
Other data*					
Total assets	\$189,126	\$169,669	\$149,750	\$125,740	\$99,780
Guaranteed trust deposits	\$175,018	\$157,403	\$137,874	\$110,122	\$86,064
Estates, trusts and agencies under administration	\$115,912	\$72,414	\$36,946	\$24,846	\$15,400
Number of shares outstanding:					
Class A	562,514	562,514	562,514	562,514	562,514
Common	174,400	174,400	174,400	174,400	174,400
Number of Class A shareholders	724	761	761	816	838

*At December 31.

**Based on net operating income less minority interest and market price at December 31.

Note: The V-Day Value of Class A shares as at December 22, 1971 was \$3.40.

SERVICES & FUNCTIONS



Savings Accounts

Your interest is calculated on a minimum monthly balance and payable semi-annually.

Special Savings Accounts

Maintain a minimum balance of \$2,000 and receive a higher rate of interest.

Chequing Accounts

Earn interest and at the same time write as many cheques as you require for a small service charge.

Current Accounts

For business or individuals who write many cheques and require a monthly statement. Unlike many other companies, we pay interest on this account.

Short Term Deposits

Available in amounts of \$5,000 and over for periods of 30 to 364 days.

Guaranteed Investment Certificates

Certificates earn a high rate of interest. Interest

may be paid monthly, quarterly, semi-annually, annually or compounded semi-annually to maturity. Certificates are available in amounts of \$500 or more for terms from one to five years.

Fedco Debentures

Debentures are a profitable and secure investment. Interest may be paid monthly, quarterly, semi-annually, annually or compounded semi-annually to maturity. Debentures may be purchased for \$1,000 or more for terms from one to five years.

Mortgage and Bond Fund

Offers the investor liquidity and high income and an opportunity to share in the safe and lucrative first mortgage market.

Dividend Income Fund

Offers investors an opportunity to participate in preferred shares of Canadian companies, the dividends on which provide attractive after tax returns.

The Company is a leader in providing new and improved services to customers. Branches are open 6 days a week, guaranteed investment certificates in a registered retirement savings plan are cashable prior to maturity with no penalty and residential mortgages are available with the privilege of prepayment with no penalty. All major systems are computerized enabling personnel to spend more time servicing our customers.



Registered Retirement Savings Plans

A means of saving for retirement while deferring taxes. The company offers a number of investment opportunities including a cashable Guaranteed Investment Certificate.

Registered Home Ownership Savings Plans

A means of saving for a home and reducing taxes.

Mortgage Loans

Available on residential, commercial and industrial properties. Residential mortgages are offered with the privilege of prepayment with no penalty.

Consumer and Personal Loans

Life insured loans available to meet the personal requirements of our customers.

Collateral Loans

Secured loans available to corporations and individuals.

Mortgage Banking

Mortgage Banking personnel (shown above) are actively engaged in originating mortgages across Canada on behalf of investor clients including pension funds.

Corporate Trust Services

These services include the following:

- Deferred Profit Sharing Plans,
- Transfer Agent and Registrar,
- Dividend paying agent
- Custodian of securities.

Other services:

- Personal Investment Management
- Foreign Remittances
- Travellers Cheques
- Money Orders and Drafts
- Safety Deposit Boxes
- Payment of Utility Bills

Directors

*David S. Ades, B.S., A.M.C.T.
President
Realty Capital Corp. Limited
Federal Trust Company

Jeanne Ades

*Leonard E. Barlow,
Retired Investment Dealer

Roger I. Coe, C.A.
Vice-President and Secretary
Realty Capital Corp. Limited
Federal Trust Company

*Peter Mackenzie,
Director
Cadillac Explorations Limited,
Calgary
*Audit Committee

Officers

(Realty Capital and Federal Trust)

*David S. Ades, B.Sc., A.M.C.T.
President

*Roger I. Coe, C.A.
Vice-President, Finance
and Secretary

*Peter Nygard,
Vice-President, Mortgages

*William R. Ryan
Assistant Vice-President,
Mortgage Banking

*M. Rowe Dinney,
Special Advisor to the President

Donald J. Cotie,
Comptroller

Brian McConnell,
Treasurer

*Executive Committee

Advisory Boards Brampton

Doug Dunton
Retired Holstein Breeder

J. Robert Kelly, *Chairman*
Barrister and Solicitor

William Raine
Retired Peel County Sheriff

Ottawa

Peter Mackenzie
Director

Philip D. Smith
Management Consultant

Department Managers

Brian L. Birket,
Computer Systems

Cathryn Bradley
Credit

Donald J. Cotie,
Comptroller

William G. Durst
Residential Mortgages

Patricia J.E. Fanning,
Personnel

Robert E. Janzen,
Mortgage Administration

Meg Kalayjian
Trust Services

Laurence A. Mills,
Investments

Auditors

Price Waterhouse & Co.,
Chartered Accountants, Toronto

Trustees and Transfer Agents

Federal Trust Company
Common Shares

Guaranty Trust Company of Canada
Series A Debentures

Montreal Trust Company
Class A Shares, Series F Warrants

Bankers

Royal Bank of Canada
Canadian Imperial Bank of
Commerce

Legal Counsel

Cassels, Brock
Barristers and Solicitors,
Toronto

Pouliot, Mercure, & Associates,
Advocates, Barristers and Solicitors,
Montreal

Stock Exchange Listing

Toronto Stock Exchange
Class A Shares, Series F
Warrants

FEDERAL TRUST COMPANY

Directors

*David S. Ades, B.Sc., A.M.C.T.
President
Realty Capital Corp. Limited
Federal Trust Company

Roger I. Coe, C.A.
Vice-President and Secretary
Realty Capital Corp. Limited
Federal Trust Company

*Donald C. Early,
Greenshields Incorporated, Toronto

*Seymour Friedland,
Ph. D.
Professor of Economics
York University, Toronto

Peter Nygard
Vice-President
Realty Capital Corp. Limited
Federal Trust Company

Joseph J. Piccininni
Alderman
City of Toronto

*Georges A. Pouliot, Q.C.
Partner
Pouliot, Mercure, & Associates
Montreal

*Audit Committee



REALTY CAPITAL CORP LIMITED

FEDERAL TRUST TOWER
415 YONGE ST., TORONTO
864-1720

Financial Service Branches

415 Yonge St., Toronto 864-9253
William B. Barrow

343 College St., Toronto 961-8247
Giuseppe M. Totino

654 Danforth Ave., Toronto 461-0254
Sarantis Castrinos

2070 Danforth Ave., Toronto 422-1610
Lucio Pernatozzi

1850 Eglinton Ave. W., Toronto 789-4341
Frank B. DeProfio

948 St. Clair Ave. W., Toronto 654-4255
Giuseppe Ianni

1224 St. Clair Ave. W., Toronto 652-3555
Michelle Maiola

141 Yonge St., Toronto 864-9023
Donald B. Irvine

9 Queen St. E., Brampton 453-1460
Donald F. Casey

270 Albert St., Ottawa (613) 238-4886
William C. Colby

800 Niagara St. N., Welland (416) 735-0714
Joseph A. Giampaolo



TRUST COMPANIES ASSOCIATION OF CANADA
L'ASSOCIATION DES COMPAGNIES DE FIDUCIE DU CANADA
11 ADELAIDE ST. WEST, STE 400
TORONTO, ONTARIO M5H 1L9
(416) 364-1207

**CONSOLIDATED STATEMENT OF CHANGES
IN CASH POSITION**

(Unaudited and \$000's omitted)

	Six months ended June 30	
	1978	1977
SOURCES OF CASH:		
Operations*	\$ 487	\$ 376
Increase in guaranteed trust borrowings	7,621	20,268
Increase in bank loans	90	50
Issue of preferred shares by subsidiary company	2,000	—
Net other	286	(1,266)
	<u>\$10,484</u>	<u>\$19,428</u>
APPLICATIONS OF CASH:		
Increase in securities and short term notes	\$ 3,288	\$ 1,108
Increase in loans	1,254	9,144
Increase in real estate and properties held for sale	3,890	114
Increase in premises, leasehold improvements and equipment	70	—
Increase in joint venture	14	150
Decrease in mortgages payable	60	39
Decrease in long term debt	87	165
Dividends	56	56
	<u>\$ 8,719</u>	<u>\$10,776</u>
Increase in cash for the period	\$ 1,765	\$ 8,652
Cash and bank deposit receipts at beginning of year	<u>10,218</u>	<u>5,171</u>
Cash and bank deposit receipts at end of period	<u><u>\$11,983</u></u>	<u><u>\$13,823</u></u>

* Represents net income after adjustments for depreciation, amortization of financing expenses, deferred taxes and minority interest (1978 — \$142,000; 1977 — \$105,000).

REALTY CAPITAL CORP. LIMITED

415 Yonge Street, Toronto

Subsidiaries and Affiliates

Federal Trust Company
Fedco Mortgage Investment Company
Warchester Investments Limited

Head Office

Federal Trust Tower, 415 Yonge Street,
Toronto 864-1720

Savings Branches

Toronto:
343 College Street 961-8247
654 Danforth Avenue 461-0254
2070 Danforth Avenue 422-1610
1850 Eglinton Avenue West 789-4341
948 St. Clair Avenue West 654-4255
1224 St. Clair Avenue West 652-3555
141 Yonge Street 864-9023
415 Yonge Street 864-9253
Brampton: 9 Queen Street East 453-1460
Ottawa: 270 Albert Street (613) 238-4886
Welland: 800 Niagara Street North (416) 735-0714

Mortgage Offices

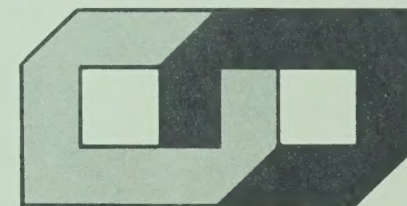
Toronto: 415 Yonge Street 864-1720
Ottawa: 270 Albert Street (613) 238-4888
Kitchener: 159 Frederick Street (519) 745-9981

Main Services and Functions

Chequing Accounts
Consumer and Demand Loans
Current Accounts
Deferred Profit Sharing Plans
Guaranteed Investment Certificates
Mortgage and Bond Fund
Mortgage Loans
Mortgage Servicing and Management
Personal Investment Management
Real Estate Sales
Registered Home Ownership Savings Plans
Registered Retirement Savings Plans
Savings Accounts
Short Term Deposits
Special Savings Accounts

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Re
**Realty Capital
Corp Limited**



Federal Trust
Company

INTERIM REPORT

**SIX MONTHS ENDED
JUNE 30, 1978**

TO THE SHAREHOLDERS

Total consolidated assets, including assets under administration, increased by 30% to \$282,755,000 compared to \$218,342,000 at the same period last year. This growth was primarily achieved as a result of the excellent growth of assets under administration which now exceed \$100 million.

Net income for the six month period ended June 30, 1978 was \$345,000 (47 cents per share) compared to \$271,000 (37 cents per share) in the same period of 1977. Profit on the sale of real estate helped to improve current period earnings. Provisions made against mortgage interest continue to affect earnings.

The recent increase in the bank rate will result in a higher cost of savings deposits which will not be fully offset by increased income on investments. There still appears to be an excess of mortgage funds over demand and as a result the recent increase in rates has had little effect on either the 5 year G.I.C. rate or mortgage rate.

On behalf of the Board,



Toronto, Ontario
August 8, 1978

David S. Ades
President

CONSOLIDATED STATEMENT OF INCOME

(Unaudited and \$000's omitted)

	Six months ended June 30		Three months ended June 30	
	1978	1977	1978	1977
Income:				
Securities, including short term investments	\$1,004	\$ 621	\$ 553	\$ 273
Mortgages	6,514	6,598	3,246	3,317
Consumer and other loans	314	364	169	180
Profit on real estate	350	—	434	—
Real estate sales commissions	38	162	11	126
Fees, commissions and other	716	564	339	294
	<u>8,936</u>	<u>8,309</u>	<u>4,752</u>	<u>4,190</u>
Expenses:				
Interest on:				
Guaranteed trust deposits	6,346	5,939	3,256	3,101
Bank loans	51	8	26	3
Long term debt	58	82	29	18
	<u>6,455</u>	<u>6,029</u>	<u>3,311</u>	<u>3,122</u>
Salaries and staff benefits	911	894	473	448
Real estate sales commissions	21	92	6	72
Premises	342	342	172	163
Other operating	655	613	320	320
	<u>8,384</u>	<u>7,970</u>	<u>4,282</u>	<u>4,125</u>
Operating income before taxes	552	339	470	65
Income taxes (recoverable)	135	73	163	(10)
Net operating income	417	266	307	75
Net gain (loss) on investments after recovery of related income taxes	(33)	5	(3)	—
Net income before minority interest	384	271	304	75
Minority interest	39	—	32	—
Net income for the period	<u>\$ 345</u>	<u>\$ 271</u>	<u>\$ 272</u>	<u>\$ 75</u>
Earnings per Class A and Common Share:				
Net operating income	<u>\$ 0.57</u>	<u>\$ 0.36</u>	<u>\$ 0.42</u>	<u>\$ 0.10</u>
Net income for the period	<u>\$ 0.47</u>	<u>\$ 0.37</u>	<u>\$ 0.37</u>	<u>\$ 0.10</u>
Fully diluted	<u>\$ 0.37</u>		<u>\$ 0.28</u>	

CONDENSED CONSOLIDATED BALANCE SHEET

(Unaudited and \$000's omitted)

	June 30 1978	December 31 1977	June 30 1977
ASSETS			
Cash and short term investments	\$ 15,335	\$ 10,218	\$ 14,315
Securities	12,098	12,162	11,452
Mortgages	129,642	129,941	128,535
Consumer and demand loans	6,136	4,583	4,612
Real estate	2,411	3,034	2,897
Properties held for sale	8,086	3,573	1,414
Joint ventures	1,003	989	1,428
Other	4,617	5,169	5,180
	<u>\$179,328</u>	<u>\$169,669</u>	<u>\$169,833</u>
LIABILITIES			
Guaranteed investment certificates and deposits	158,256	\$150,635	152,033
Mortgages payable	903	963	984
Bank loans	980	890	222
Long term debt	3,083	3,170	3,170
Other	8,194	8,359	7,060
Deferred income taxes	444	474	1,068
Minority interest in preferred shares of subsidiary company	2,000	—	—
Shareholders' equity	5,468	5,178	5,296
	<u>\$179,328</u>	<u>\$169,669</u>	<u>\$169,833</u>
Estates, Trusts and Agencies	103,427	72,414	48,509
TOTAL ASSETS UNDER ADMINISTRATION	<u>\$282,755</u>	<u>\$242,083</u>	<u>\$218,342</u>